

Social club; corporation sponsored members. A social club does not jeopardize its exemption under section 501(c)(7) of the Code by admitting corporation sponsored individuals who have the same rights and privileges as regular individual members and who must be approved by the membership committee.

Advice has been requested whether a social club exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954 jeopardizes its exemption by admitting corporation sponsored individuals as members under the circumstances described below.

The club is a nonprofit membership corporation that was formed for the pleasure and recreation of its members. Its bylaws provide for both individual membership and corporation sponsored membership. Corporations, partnerships, sole proprietorships, or other business entities in the community may sponsor for membership in the club one representative designated by the business entity. Such individual is subject to the same approval by the membership committee as is required of all members. Each person so designated and accepted by the membership committee has all of the rights and privileges of regular individual members, including the right to vote at club meetings, the use of all club facilities, and the distributive rights to the club's assets upon dissolution. The corporation sponsoring a member does not thereby become entitled itself to vote at club meetings. It exercises no control over the management of the club and enjoys no ownership rights.

A corporation sponsored membership may be transferred to another individual. However, the newly designated individual must also be approved by the membership committee before he is admitted to the club. The business entity pays for the corporation sponsored membership.

Section 501(c)(7) of the Code provides for exemption from Federal income tax for clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Rev. Rul. 58-589, 1958-2 C.B. 266, discusses the criteria for exemption under section 501(c)(7) of the Code and holds that a club must have an established membership of individuals, personal contacts, and fellowship to be a social club within the meaning of the statute.

The corporation sponsored membership described above rests with the individual designated by the business entity and accepted by the membership committee. Because it involves the bona fide membership of individuals, rather than business entities, such corporation sponsored membership is consistent

with the conclusions of Rev. Rul. 58-589. Compare Rev. Rul. 67-428, 1967-2 C.B. 204, which holds that an organization composed of artificial entities rather than individual members does not qualify as an exempt social club.

Accordingly, a social club does not jeopardize its exemption under section 501(c)(7) of the Code by admitting corporation sponsored individuals as members under the circumstances described above.